The attached draft Report of the Forum on Strategic Management to the Committee on Fiscal Affairs is submitted to the FSM and the FSM Sub-Group for written comments by no later than Wednesday, 29 November 2000. Subject to any necessary further amendment and refinement, the final draft version of the Report will be submitted to the FSM Steering Group, for approval, at its next meeting on 11-12 December 2000.

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TAX ADMINISTRATION ASPECTS OF ELECTRONIC COMMERCE:
RESPONDING TO THE CHALLENGES AND OPPORTUNITIES

A Report from the Forum on Strategic Management to the Committee on Fiscal Affairs on progress in implementing the Tax Administration aspects of the Ottawa Taxation Framework Conditions for Electronic Commerce

Executive summary and decisions required

A note by the Secretariat

1. This report focuses on presenting the work done by the Forum on Strategic Management (FSM) Sub-group on Electronic Commerce to progress the Tax Administration aspects of the 1998 Ottawa Taxation Framework Conditions. It then highlights the future planned work of the FSM in this area, which will be one of the key inputs into the Montreal conference “Tax Administrations in an Electronic World” in June 2001.

2. It is proposed that the report will be made public after the January session of the Committee on Fiscal Affairs (CFA). After taking into account comments received on the report, as well as matters raised in the dialogue at Montreal, the FSM will draw up a plan for the next stage of its work programme and submit this to the CFA at the end of June 2001.

3. Delegates should review the report in this light and provide comments/suggested enhancements to the Secretariat1 by 29 November 2000 so that a revised report can be considered at the FSM Steering Group meeting on 11 -12 December 2000.

4. FSM Delegates are asked to agree that this report be submitted to the CFA with a recommendation that:

   − A summarised2 version of the report is issued as a public discussion document in February 2001 with a request for comments from the private sector and non-member countries by 1 April 2001.

   − The report, and a workplan to progress its elements, is submitted to the Montreal conference for further consideration.

   − The proposals for future work be endorsed.

1. Mr. Stuart Hamilton, e-mail: stuart.hamilton@oecd.org, fax: +33 1 44 30 61 36.
2. To remove confidential document references and internal process matters.
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**ANNEX I**

**ABBREVIATED LIST OF PAPERS PREPARED BY AND PRESENTED BY THE FSM SUB-GROUP ON ELECTRONIC COMMERCE MEMBERS**

**ANNEX II**

**SUMMARY OF FINDINGS OF THE TECHNOLOGY TECHNICAL ADVISORY GROUP**

**ANNEX III**

**SUMMARY RECOMMENDATIONS OF THE PROFESSIONAL DATA ASSESSMENT TECHNICAL ADVISORY GROUP**
TAX ADMINISTRATION ASPECTS OF ELECTRONIC COMMERCE:
RESPONDING TO THE CHALLENGES AND OPPORTUNITIES

Part I: Background to the work of the Forum on Strategic Management on electronic commerce

General background

5. At the November 1997 conference entitled *Dismantling the Barriers to Global Electronic Commerce* held in Turku, Finland, government and business representatives met for informal discussions on the challenges posed by global electronic commerce to tax systems. Since that initial meeting much work has been done by the OECD and revenue authorities to provide greater certainty on how electronic commerce will be treated for tax purposes, clarifying the risks as well as identifying opportunities.

6. Less than a year after Turku, the Committee on Fiscal Affairs’ Electronic Commerce Tax Administration (ECTA) group, together with the Consumption Tax Working Party, had formulated the Taxation Framework Conditions [DAFFE/CFA(98)38/REV3] that were endorsed by Ministers at the Ottawa conference and that have since been generally accepted world-wide as providing a sound basis for ongoing work. The OECD, in co-operation with other international organisations, was acknowledged as the organisation best placed to co-ordinate and carry this work forward.

7. At Ottawa it was also recognised that greater business and non-member country input would be needed to implement globally the broad taxation principles and the other elements of a Taxation Framework that had been identified.

8. An ambitious work program was developed to maintain the momentum achieved at Ottawa. Each of the CFA’s Working Parties was tasked with aspects of the Taxation Framework Conditions to progress. Five Technical Advisory Groups (Business Profits, Income Characterisation, Consumption Tax, Technology, and Professional Data Assessment) consisting of government, from both Member and non-member countries, and business participants were established to provide input into the Working Parties’ deliberations.

Recapping the Ottawa conclusions

9. It is worth briefly recapping what was endorsed at Ottawa in October 1998 as it provides the foundation on which work over the last two years has been based. At Ottawa it was agreed that the following broad taxation principles should apply to electronic commerce: neutrality, efficiency, certainty and simplicity, effectiveness and fairness, and flexibility.

10. As was recognised at the earlier Turku conference, these broad taxation principles may conflict and governments and businesses may have different views on the balance and priority of their applications in particular contexts. That said, the principles do provide an important reference point against which to measure and progress taxation proposals, particularly those relating to tax administration.
The CFA used the taxation principles to draw the following conclusions, reflected in the Taxation Framework Conditions:

− The taxation principles that guide governments in relation to conventional commerce should also guide them in relation to electronic commerce.

− The CFA believes that existing taxation rules can implement these principles. This approach does not preclude new administrative or legislative measures, or changes to existing measures, relating to electronic commerce, provided that those measures are intended to assist in the application of the existing taxation principles, and are not intended to impose a discriminatory tax treatment of electronic commerce transactions.

− The application of these principles to electronic commerce should be structured to maintain the fiscal sovereignty of countries, to achieve a fair sharing of the tax base from electronic commerce between countries and to avoid double and unintentional non-taxation.

− The process of implementing these principles should involve an intensified dialogue with business and with non-member economies.

In the field of tax administration, these principles and conclusions were developed into the following Taxation Framework elements [DAFFE/CFA(98)38/REV3]:

− **Taxpayer service**

Revenue authorities should make use of the available technology and harness commercial developments in administering their tax system to continuously improve taxpayer service.

− **Tax administration, identification and information needs**

Revenue authorities should maintain their ability to secure access to reliable and verifiable information in order to identify taxpayers and obtain the information necessary to administer their tax system.

− **Tax collection and control**

Countries should ensure that appropriate systems are in place to control and collect taxes.

International mechanisms for assistance in the collection of tax should be developed, including proposals for an insert of language in the OECD Model Tax Convention.\(^3\)

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\(^3\) This aspect is being addressed by Working Party 1. At its September 2000 meeting WP1 considered the options proposed by WP8 regarding the inclusion of a collection assistance Article in the Model Tax Convention or in the Commentary to the Convention. WP1 agreed to include an Article on collection assistance in the Model in preference to revising the Commentary. The precise wording of the article proposed by WP8 will be discussed at the February 2001 meeting of WP1. The OECD/CoE Multilateral Convention on Mutual Administrative Assistance in Tax Matters provides another avenue for revenue authorities to consider. See [http://www.coe.fr/eng/legaltxt/127e.htm](http://www.coe.fr/eng/legaltxt/127e.htm)
13. Recognising that much remained to be done; the Taxation Framework Conditions paper mapped out an agenda for future work that included the following in relation to the field of tax administration:

- **Taxpayer service**
  Developing an international consensus on ways to simplify taxation systems to minimise the cost of tax compliance, particularly for small to medium sized enterprises.

- **Tax administration, identification and information needs**
  Adopting conventional identification practices for business engaged in electronic commerce.
  Developing internationally acceptable guidelines on the levels of identification sufficient to allow digital signatures to be considered acceptable evidence of identity in tax matters.
  Developing internationally compatible information requirements, such as acceptance of electronic records, format of records, access to third party information and other access arrangements and periods of retention and tax collection arrangements.

- **Tax collection and control**
  Designing appropriate strategies and measures to improve tax compliance with regard to electronic commerce transactions, including measures to improve voluntary compliance.

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**Progressing the Tax Administration Aspects – the Forum on Strategic Management’s role**

14. The FSM is a “virtual” forum of the heads of revenue authorities⁴, or their deputies, from all OECD member countries. It was formed in 1997 by the CFA [DAFFE/CFA/M(97)2] to discuss strategic management issues of importance to tax administration. Electronic commerce was recognised as one of those strategic issues to be considered. The CFA has tasked the FSM with overseeing the tax administration work on electronic commerce arising from the Taxation Framework Conditions.

15. The FSM formed a Sub-group on Electronic Commerce (the “Sub-Group”) in February 1999 to progress work on the tax compliance, service and administration issues associated with electronic commerce. In particular, the Sub-Group was to progress consideration of various tax administration “implementation options” raised in the CFA report “Electronic Commerce: A Discussion Paper on Taxation Issues” [DAFFE/CFA(98)50] (the discussion paper) released at Ottawa with the Taxation Framework Conditions.

16. These options were intended to stimulate discussions on the mechanisms open to governments to implement the Taxation Framework Conditions. The proposed implementation options relating to taxpayer service and tax administration were [DAFFE/CFA(98)50]:

1) Revenue authorities may consider developing Internet web sites where information, such as tax legislation, rulings, case law, revenue statistics and forms can be viewed and down loaded.

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⁴ The term revenue authorities is used in preference to tax administrations as the latter can be construed as having a narrower meaning.
2) Revenue authorities may consider interactive telephone answering systems for many standard inquiries.

3) Revenue authorities may consider a single e-mail access point for highly mobile taxpayers.

4) Revenue authorities may consider receiving and responding to taxpayers' service enquiries by e-mail.

5) Revenue authorities may consider direct deposit programs for tax payments and refunds.

6) Revenue authorities may consider accepting tax return data and other information by use of the new technologies.

7) Revenue authorities may consider automated payments of social security, payroll taxes and other similar deductions.

8) Revenue authorities may consider working with other arms of government to investigate the benefits of single government registration points on the Internet.

9) Revenue authorities may consider requiring that businesses engaged in electronic commerce identify themselves to revenue authorities in a manner that is comparable to the prevailing requirements for businesses engaged in conventional commerce in a country.

10) Revenue authorities may consider encouraging business practices that identify businesses engaged in electronic commerce.

11) Revenue authorities may consider mechanisms facilitating tracing, for tax purposes, of inadequately identified web sites and other electronic places of business.

12) Revenue authorities may consider making their views on user identity known to other bodies with a role in determining the identity of parties engaged in electronic commerce.

13) Revenue authorities should express their views to the appropriate bodies to ensure that features of electronic payment systems do not exacerbate the challenges associated with the cash economy.

14) Revenue authorities should co-operate with businesses developing codes of practice or other instruments which would encourage the widespread application of appropriate technologies, such as message digests and digital notarisation, to ensure the integrity of electronic records.

15) Revenue authorities may consider expressing their views on information requirements to appropriate bodies developing standards or protocols for electronic commerce.

16) Revenue authorities may consider encouraging taxpayers that utilise encryption or security technology to also consider key recovery, trusted third party or other arrangements to guard against the inadvertent loss of encryption keys.

17. These options have now been reviewed by the Sub-Group with input from two of the joint government/business Technical Advisory Groups (TAGs), the Technology TAG and the Professional Data Assessment TAG, that report to, and inform the broader work, of the Sub-Group.

**The focus of the work of the FSM Sub-Group on Electronic Commerce**

18. At its February 1999 meeting in Washington, the FSM Steering Group established that, in taking forward the work on the implementation options, the Sub-Group would also:

   a) Determine whether the tax compliance and administration implementation options, contained in the October 1998 paper “Electronic Commerce: A discussion paper on
Taxation issues” will, if implemented, provide tax administrations with a response to some of the challenges of electronic commerce.

b) Determine which implementation options could be progressed by revenue authorities without policy change, which options will require policy change and which will require work involving other arms of government.

c) Examine special administrative challenges posed by electronic commerce in the area of harmful tax competition.

d) Manage the work of the PDA and Technology TAGs.

e) Manage relations with other subsidiary bodies of the CFA, and

f) Involve non-member economies in the work of the sub-group.

19. It is the FSM’s conclusions and recommendations to carry forward the OECD’s work on taxpayer service and tax compliance and administration issues, based on the work undertaken by the Sub-Group, that are set out in the next part of this report.

Part II: Conclusions and recommendations reached

Summary of key recommendations in this report

− That member countries actively pursue the options set out below to implement the Taxation Framework Conditions in relation to taxpayer service. [Paragraph 35]

− That revenue authorities continue to facilitate the exchange of practices and knowledge between administrations, both member and non-member both member and non-member, via: the use of targeted meetings, including appropriate one-off expert meetings; the FSM Electronic Discussion Group; and the ongoing development of the FSMKE web site. [Paragraph 37]

− That specific attention is focused on assisting small to medium-sized enterprises (SMEs) to attain and maintain good compliance. [Paragraph 38]

− That revenue authorities actively examine and appropriately pursue options to implement the Taxation Framework Conditions in relation to tax administration and compliance. [Paragraph 39]

− That consideration is given to the establishment of an expert panel, with business, government (member and non-member) and OECD Committee for Information, Computer and Communications Policy (ICCP) participation, so that appropriate tax administration input into “standard” setting bodies can be provided in a more timely fashion. This panel would take on the Technology TAG’s outstanding work and would incorporate active Technology TAG members. [Paragraph 46]

− That other ways of obtaining active non-member involvement in the development of electronic commerce taxation arrangements be pursued, such as additional OECD, CIAT (The Inter-American Center of Tax Administrations), CATA (The Commonwealth
 Association of Tax Administrations), IOTA (The Intra-European Organisation of Tax Administrations), CREDAF (La Centre de Rencontres et d’Etudes des Dirigeants des Administrations Fiscales) joint meetings/work. [Paragraph 61]

− That other activities to raise awareness of the issues associated with the taxation of electronic commerce with non-members be planned as part of the OECD outreach program. [Paragraph 62]

− That a small number of key non-member countries should be invited to participate in the Sub-Group. [Paragraph 63]

− That the Sub-Group to prepare a workplan, building on its achievements to date, to progress these recommendations and the future work proposals identified in Part III of this report. [Paragraph 68]

(i) Report on items a) and b) - tax implementation options

20. To address the tasks given to it, the Sub-Group at its inaugural meeting in June 1999, proposed an ambitious workplan to advance not only the tax compliance and administrative implementation options, but also the taxpayer service options identified in the discussion paper.

21. At the time there was discussion amongst delegates about the ability of the Sub-Group to deliver on such a wide-ranging agenda. However, it was decided that the Sub-Group should encompass all aspects of the OECD’s work in the area of taxpayer service as well as tax compliance and administration. The delegates did note that since taxpayer service issues and tax compliance and administration issues are usually dealt with by different people in most revenue authorities a different set of attendees would be required to properly address the taxpayer service options. In practice this approach was adopted successfully.

22. The Sub-Group began its work by considering whether the tax compliance and administration implementation options raised in the discussion paper would provide revenue authorities with an effective response to some of the challenges of electronic commerce. The Sub-Group also considered which implementation options could be progressed by revenue authorities without policy change, which options would require a policy change, and which would require work involving other arms of government.

23. As it was apparent that many of the options on the tax administration side would need technical input to be progressed, the Sub-Group tasked the Technology and PDA TAGs with providing such input.

24. To progress the taxpayer service implementation options the Sub-Group organised a meeting of relevant specialists and undertook a survey of what electronic service techniques were being used by member countries. The former took place in March 2000 when taxpayer service specialists met in Copenhagen to share experiences in the use of electronic service delivery and to learn from other members as to the way in which they are using the new technologies to improve taxpayer service. The latter was initiated in May 2000 when a survey of taxpayer service initiatives using new technology was conducted among member countries. The trends from this survey are noted in paragraph 32.

25. The Sub-Group also tasked a number of its members to prepare a paper profiling the characteristics and special challenges that SMEs face and present in relation to electronic commerce compared with larger enterprises. Building on the profiling of SMEs the Sub-Group also commissioned some of its members, co-ordinated by the UK, to draft a paper exploring the potential for offering guidance
on taxation matters to SMEs engaged in electronic commerce. [FSMEC/EDG(2000)6] To evidence how such guidance could be provided the UK has included a guidance area for SMEs on the Inland Revenue web site (www.inlandrevenue.gov.uk).

26. In the compliance field several member countries\(^5\), were asked by the Sub-Group to develop a generic OECD manual for tax administration staff on gathering information from the Internet. [FSMEC/EDG(2000)17] This will be made available at the June 2001 conference in Montreal and for use by staff in other revenue authorities to assist them in their compliance work on businesses engaging in e-commerce.

27. To gain a greater understanding of the potential compliance risks, the Sub-Group asked France to co-ordinate the identification of web sites associated with facilitating aggressive tax planning in tax havens. Paragraph 47 expands on this aspect.

28. The Sub-Group also commissioned an initial listing of Internet “standards” bodies with a view to influencing the development and implementation of Internet protocols and practices in a way that might better support revenue authorities access to relevant taxpayer information or might facilitate cost effective systems of tax collection.

29. The FSM notes that during the past eighteen months, several member countries have devoted time and effort to special projects designed to advance the OECD’s work in the area of tax compliance and administration issues and commends them for this. Such work is a powerful illustration of the value of the Forum as a mechanism for sharing experience.

30. The FSM welcomes the growing number of spontaneous bilateral and multilateral collaborations occurring between delegates of the Sub-Group with good results. From the outset of the creation of the Sub-group, it was readily apparent that member countries could benefit from the advice of members from countries that were more advanced in their e-commerce work. This has led to a heightened awareness in many countries as to the significance of the issues, utilising the OECD’s pre-eminent position to advance these global efforts. Annex I contains a list of some of the presentations / papers prepared by delegates of the Sub-Group for other members.

Conclusions and recommendations

Regarding the taxpayer service implementation options

31. In regard to taxpayer service initiatives, the survey commissioned by the FSM found encouraging signs of the widespread adoption of new technologies by revenue authorities. Almost all respondents to the survey had established web sites that allowed the downloading of forms, that provided answers to commonly asked questions and the majority of sites allowed for on-line form filing. The US is preparing a paper on developments and emerging trends in taxpayer service.

32. A number of electronic service delivery trends were clearly evident and are set out in Table 1 below:

<table>
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<tr>
<th>From</th>
<th>To</th>
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<tbody>
<tr>
<td>Paper based communications</td>
<td>Electronic communications</td>
</tr>
<tr>
<td>Preparer/assessor</td>
<td>Self help/Expert systems</td>
</tr>
<tr>
<td>Cash/Cheques</td>
<td>Electronic Funds Transfer (EFT)</td>
</tr>
<tr>
<td>Personalized responses</td>
<td>Automated Voice/Mail</td>
</tr>
</tbody>
</table>

\(^5\) Australia, UK and the USA.
33. Some obstacles remain to the greater utilization of electronic technology. Two of these, electronic security and electronic signatures, are in various stages of development and deployment. Another obstacle identified was the availability of computers to taxpayers. Several countries have compensated for this by allowing “form-filing” over the phone, by establishing “kiosks” in public places that allow for filing and by using third parties such as the postal authorities and agents. The new generation of relatively cheap mobile Internet enabled devices (e.g. WAP phones) may also help bridge the current digital divide in this respect.

34. The FSM has found that there was considerable value in multilateral exchange of practices and experience in the area of utilising electronic means to improve service.

35. The FSM recognises that in implementing the taxpayer service options, set out below, each country will need to adapt its implementation strategy to reflect its own domestic legislation and policy environment. Nevertheless, the FSM recommends that member countries actively pursue the following options to implement the Taxation Framework Conditions in relation to taxpayer service:

1) To develop Internet web sites where information, such as tax legislation, rulings, case law, revenue statistics and forms can be viewed and down loaded.
2) To develop interactive telephone answering systems for many standard inquiries.
3) To examine the feasibility of a single e-mail access point for highly mobile taxpayers.
4) To examine the feasibility of receiving and responding to taxpayers service enquiries by e-mail.
5) To explore the use of direct deposit programs for tax payments and refunds.
6) To develop systems for accepting tax return data and other information by use of the new technologies.
7) To develop systems for automated payments of social security, payroll taxes and other similar deductions.
8) To work with other arms of Government to investigate the benefits of single Government registration points on the Internet.

36. The work of the FSM has underlined the growing importance of electronic means of delivering service to taxpayers and in reducing compliance costs. The FSM welcomes the marked trend towards greater use of electronic mechanisms such as e-mail; web based tax knowledge repositories, EFT, etc. to improve taxpayer service by administrations. [FSMEC/EDG(2000)4]

37. The FSM recommends that revenue authorities continue to facilitate the exchange of practices and knowledge between administrations, both member and non-member, via: the use of targeted meetings, including appropriate one-off expert meetings; the FSM Electronic Discussion Group; and the ongoing development of the FSMKE web site. In particular the FSM will be encouraging member countries to participate in an “expo” of electronic taxpayer service initiatives at the June 2001 Montreal conference on e-commerce.

38. Noting the particular compliance difficulties faced by smaller Internet based businesses operating in a global market, the FSM suggests specific attention be focused on assisting these businesses to attain and maintain good compliance. In this respect the FSM notes and welcomes the proposed evaluation by the
University of Bath UK on web site information provided by revenue authorities from the perspective of a small to medium businesses.

Regarding the tax administration implementation options

39. Whilst considerable work remains to be done on the administrative options, the FSM believes that it is already in a position to encourage revenue authorities to actively examine and appropriately pursue the following options for implementing the Taxation Framework Conditions in relation to tax administration. It is recognised that progress made in implementing these options will vary between countries depending their policy and legislative environment and their administrative practices:

9) Businesses engaged in electronic commerce should identify themselves to revenue authorities in a manner that is comparable to the prevailing requirements for businesses engaged in conventional commerce in a country.

10) Revenue authorities should encourage business practices that identify businesses engaged in electronic commerce.

11) Revenue authorities should examine mechanisms to facilitate tracing, for tax purposes, of inadequately identified web sites and other electronic places of business.

12) The CFA should make its views on user identity known to other bodies with a role in determining the identity of parties engaged in electronic commerce.

13) Revenue authorities should express their views to the appropriate bodies to ensure that features of electronic payment systems do not exacerbate the challenges associated with the cash economy.

14) Revenue authorities should co-operate with businesses developing codes of practice or other instruments which would encourage the widespread application of appropriate technologies, such as message digests and digital notarisation, to ensure the integrity of electronic records.

15) The CFA should make its views on information requirements to appropriate bodies with a role in developing standards or protocols for electronic commerce.

16) Taxpayers that utilise encryption or security technology should be encouraged to consider key recovery, trusted third party or other arrangements to guard against the inadvertent loss of encryption keys.

40. The FSM believes that while option 9 can be progressed domestically by revenue authorities, there would be compliance cost benefits, for taxpayers engaging in cross border e-commerce, by striving for greater consistency of approach and practice between administrations.

41. In relation to the remaining tax compliance and administration options (items 10-16), the FSM concludes that whilst they could be also progressed domestically, faster progress will be made in their implementation by international co-operation between revenue authorities.

42. The FSM believes that implementation option 10, regarding the encouragement of business practices that would provide easier identification, will require that revenue authorities work closely with other bodies, such as those associated with consumer protection and corporate registration, to develop compatible views.

43. In the case of implementation options 11 through 16 inclusive, the FSM will provide a forum where revenue authorities can work together to share experiences. In the case of options 12 through 16
inclusive, the FSM will integrate the collective views of revenue authorities and will provide the most appropriate means of communicating their views to other bodies associated with electronic commerce.

44. Some initial progress was made towards the identification of parties associated with the formation of Internet standards and practices by the Sub-Group with the advice of the Technology and PDA TAGs. While the draft listing of relevant standard bodies was developed within the Sub-Group it was not possible for the Group to maintain a watching brief over new standard proposals, let alone prepare suitable input to those bodies on tax administration views.

45. The FSM notes that some administrations have maintained an ad hoc awareness of developing standards. However it is unlikely that an approach from an individual or a revenue authority to a standards body would have the same degree of influence as an approach from the OECD CFA, representing the combined input of member and non-member administrations.

46. Hence the FSM recommends that consideration be given to the establishment of an expert panel, with business, government (member and non-member) and OECD Committee for Information, Computer and Communications Policy participation, so that appropriate revenue authority input can be provided in a more timely fashion. This panel would take on the Technology TAG’s outstanding work and would incorporate active Technology TAG members. It is clearly important that appropriate government policy input occurs prior to the standard becoming “fixed” and widely deployed.

47. It is recognised that the mobility of electronic commerce and its geographic sensitivity to tax differentials may exacerbate harmful tax competition. Already a large number of web sites aimed at facilitating aggressive tax planning have been identified and it is noted that a number of these sites are becoming more “professional” in their approach to soliciting clients.

Conclusions and recommendations

48. While a large number of web sites facilitating aggressive tax planning were identified, many of these appeared to be associated with a few promoting organisations, often based in tax havens. Most sites were physically located on servers in member countries, most likely due to bandwidth considerations and the availability of reliable telecommunication facilities.

49. The FSM concludes that the ongoing development of electronic commerce raises the importance to all countries, both member and non-member, of curbing harmful tax competition and is looking to the Forum on Harmful Tax Practices for further guidance on how the FSM should further assist in this area.

(iii) Report on Item d) - Manage the Work of the PDA and Technology TAGs

50. The Sub-Group, together with the Working Party 9 Sub-group on Electronic Commerce, managed the work of the Technology TAG since its inception. Full details of the work output of the Technology TAG are contained in the Technology TAG report.6

6 Footnote reference for the Technology TAG report. (Not available yet.)
51. The FSM notes that the Technology TAG provided valuable input on jurisdictional identifiers that might be associated with electronic commerce transactions and on the practicality of proposed collection mechanisms for indirect taxes. (The conclusions of the Technology TAG are annexed to this report as Annex II.)

52. The Sub-Group also managed the work of the Professional Data Assessment (PDA) TAG and full details of their work output are contained in the PDA TAG report.  

53. The group carried out valuable research in the following areas: Electronic commerce audit standards and protocols; Data authenticity and reliability mechanisms; Remote access to taxpayer data, Encryption key management and recovery mechanisms; Desirable data elements for electronic commerce. The Group also analysed the specific audit risks associated with Internet electronic commerce trading.

54. The FSM notes the PDA TAGs conclusions, which are annexed (Annex III) to this report and recommends that member administrations consider them and provide comments back to the Sub-Group at its next meeting.

Conclusions and recommendations

55. The FSM thanks both the Technology and PDA TAGs for the valuable input into its work. The FSM considers that business input into the policy development process has proved very important and that a mechanism to ensure widely considered business views on the practical implications of policy options is needed. The FSM considers that the reports of the Technology and PDA TAGs should be issued as public documents to garner further business and government input on their conclusions and recommendations.

56. The FSM found that while both the PDA and Technology TAGs provided valuable input to the Forum’s and WP9 Sub-Group’s deliberations, the initial expectations from the process were overly optimistic. Not all members of the TAGs were able to provide the same level of quality input and it was found that face-to-face meetings and telephone conference calls were often the best way of moving the analysis forward, rather than by e-mail or the Electronic Discussion Group. The existing TAG process, while providing valuable business input, proved somewhat cumbersome and unable to provide timely input into developing Internet standards such as ebXML, IPv6 etc.

57. The FSM recommends that the input of business and non-member countries should continue and that for technology matters an expert panel approach be adopted, with business, government (member and non-member) and OECD Committee for Information, Computer and Communications Policy participation for future input into policy decisions. It is expected that active participants of the Technology TAGs would be incorporated into this panel. [Refer paragraph 46.] It is also proposed that a new TAG on Tax Administration be created. Its role would expand on the PDA TAGs scope somewhat to cover a broader range of business/tax administration issues. Its membership would encompass many of the existing PDA TAG participants and some additional participants may be sought.

(iv) Report on Item e) - Manage relations with other subsidiary bodies of the CFA

58. In progressing its mandated work the Sub-Group established close relationships with the other subsidiary bodies of the CFA, particularly the WP9 electronic commerce Sub-Group. Several overlapping meetings were held to facilitate this work while minimising costs. These meetings proved the most

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7 Footnote reference for PDA TAG report. (Not available yet.)
successful mechanism to consider TAG input, for reaching consensus and to provide directions for future work.

Conclusions and recommendations

59. The importance of face to face meetings was highlighted, as was the need to closely co-ordinate the timing of meetings to facilitate joint meetings between the different groups. The FSM recommends that the practice of joint meetings between the WP9 and FSM Sub-Groups be continued as a mechanism for ensuring that each group remains informed of the other’s activities.

(v) Report on Item f) - Involve non-member economies in the work of the Sub-Group

60. A number of non-member countries were invited to join the Technical Advisory Groups and the Sub-Group. While the level of active involvement within the TAGs from non-member countries was lower than what was envisaged, several non-member participants made valuable contributions to the work of the Sub-Group. (The Secretariat is reviewing the lessons learned from the process to date so that the dialogue and involvement of non-member countries can be enhanced.)

Conclusions and recommendations

61. The FSM considers that input of non-member countries views on the taxation of global electronic commerce is very important. It recommends that other ways of obtaining active non-member involvement in the development of electronic commerce taxation arrangements be pursued. It notes that as part of the process of strengthening non-member involvement, over 100 countries and eight international organisations will be part of the June 2001 Montreal conference “Tax Administrations in an Electronic World” being jointly organised by the OECD, CIAT, CATA, IOTA, CREDAF and Canada’s CRA. This will be the first such global gathering of revenue authorities and it will be important to use this process to establish and enhance the “voice” of revenue authorities in relation to electronic commerce activities.

62. The FSM also recommends that other activities to raise awareness of the issues associated with the taxation of electronic commerce with non-members be planned as part of the OECD outreach program.

63. The FSM also proposes that a small number of key non-member countries should be invited to participate in the Sub-Group.

Part III: Future work proposed

64. While the past two years have been tumultuous for investors in electronic commerce businesses, there have been equally important lessons for revenue authorities as they attempt to grapple with the tax policy and practice issues arising from global electronic commerce. Important first steps have been made towards greater co-operation by revenue authorities on a global scale and the electronic commerce work is an excellent example of the changing role of the CFA and its relationship with revenue authorities in a global context.

65. Revenue authorities now have a much deeper understanding of the implications for them of “borderless” electronic commerce. The work of the FSM Sub-Group and the Technical Advisory Groups has helped to nurture this understanding. Significant progress on moving the Ottawa tax administration implementation options forward towards an agreed revenue authority/CFA position has also been made.
The FSM commends all those who have helped progress this work. There is growing realisation and acceptance by all parties of the need to derive solutions that address the global policy issues, but that can be implemented locally.

66. Much remains to be done and the FSM believes that the positive work of the FSM Sub-Group needs to continue and that, without repeating the detail of the recommendations in Part II, there are several main strategic strands to this future work:

**Understanding the electronic commerce environment better**

- The FSM recommends that further work on quantifying the risks posed by electronic commerce is warranted and that the Sub-Group should continue to co-ordinate and facilitate activities in the area between members.

- The FSM recommends that the Sub-Group review and report on the organisational structures and approaches used by the revenue authorities of member countries to deal with the tax issues raised by global electronic commerce, with a view to sharing member practices.

- The Sub-Group should also commission, and continue to co-ordinate, further research into areas where a more detailed understanding of the technology and trading environment is needed, such as into jurisdictional verification methods available in an electronic commerce environment.

- In particular, the Sub-Group should co-ordinate further examination of desirable data elements associated with electronic commerce transactions, identified by the PDA TAG, in co-operation with the business community including major accounting firms, accounting standard setting bodies and the ISO.

**Improving taxpayer service**

- The FSM recommends that revenue authorities should actively pursue progressing the Taxpayer service implementation options identified at Ottawa, recognising that each country will need to adapt its implementation strategy and timetable to reflect its own domestic legislation and policy environment.

- The FSM recommends that a long-term goal of greater consistency of revenue authority filing requirements would assist in lowering cross border compliance costs and recommends that the Sub-Group facilitate this, building on the experiences of the Copenhagen meeting.

- The FSM recommends that the Sub-Group draw up guidance for businesses on how the new technologies may be used to reduce compliance costs by, for example, establishing the reliability and authenticity of electronic data and good management of encryption keys.

**Progressing the Ottawa Taxation Framework Conditions**

- The FSM recommends that revenue authorities should actively examine and appropriately pursue the administrative and compliance implementation options put forward for discussion at Ottawa. The options should now be worked into agreed revenue authority positions, and
statements of good practice, that can be published as such. This would involve, in some
instances, spelling out the detail of what is proposed as a revenue authority “standard” in co-
operation with other interested parties.

- The FSM recommends that the Sub-Group co-ordinate tax administration input to
“standards” bodies and similar technological leaders associated with electronic commerce by
the proposed Technology panel.

- The FSM recommends that the Sub-Group co-ordinate discussions with software developers
as to how accounting packages might be enhanced to provide both business and revenue
authorities with the assurances they need as to the reliability and authenticity of electronic
data and so help to reduce compliance costs.

- The FSM recommends that the Sub-Group continue to facilitate the good work of
administrations in collaborating and co-operating in the development of training and tools,
such as computer assisted auditing, in an electronic commerce environment.

67. The FSM expects that the Montreal conference will provide important input into its discussions
on the future work required by revenue authorities.

68. The FSM asks the Sub-Group to prepare a workplan, building on its achievements to date, to
progress the recommendations and the future work proposals identified in Part II and III of this report.
ANNEX I - ABBREVIATED LIST OF PAPERS PREPARED BY AND PRESENTED BY THE FSM SUB-GROUP ON ELECTRONIC COMMERCE MEMBERS:

**United Kingdom**

A Practical Introduction to the Internet for Compliance Work  
Electronic commerce: The UK’s Taxation Agenda

**United States**

Research Report: Organisation and Results  
Internet Primer – Information to Understand the Expanding Electronic Universe  
Audit Questionnaire

**Australia**

Tax and the Internet Discussion Report 1997  
Tax and the Internet Second Report 1999  
Excerpts from “A Guide to gathering information from the Internet”  
Identification and Record keeping standards: A review of the practices of SME’s engaged in electronic commerce

**Denmark**

Electronic Filing and Internet Access to Taxation Details

**Ireland**

Electronic Filing and Digital Signatures  
Electronic Commerce and the Irish Tax System Discussion Report - 1999

**Canada**

Organisational Structure to deal with Electronic Commerce

**Norway**

Update of the work of the Tax Information Exchange System Subgroup
Netherlands

Paper on Standard Audit Files/Protocols
ANNEX II – SUMMARY OF FINDINGS OF THE TECHNOLOGY TECHNICAL ADVISORY GROUP

1. The FSM did not have sufficient time to consider these findings in any detail, but believes that they provide an excellent starting point for the next stage of the exercise. It also expects and encourages comments from both government and business on the desirability and feasibility of the Technology TAG proposals.

2. The Technology TAG undertook a range of work with the Consumption Tax TAG and the WP9 Sub-Group on Electronic Commerce in examining the technological implications of the various collection models considered for collecting taxes on cross-border electronic commerce transactions. This work is brought together in this annex to summarise the Technology TAG’s conclusions at this point in time.

3. The Technology TAG is continuing work in resolving the issues presented by the various technologies, most of which are quickly evolving.

Conclusions of the Technology TAG regarding CT collection models

4. The Technology TAG sees the self-assessment model as impractical for business to consumer transactions.

5. The remaining proposals have strengths in particular areas and inherent weaknesses. For example, the registration model is strong in minimising government administration costs, but business is left with a large burden in being able to correctly identify the consumer’s jurisdiction to correctly levy a consumption tax. The costs involved in potentially registering and complying with up to 120 jurisdictions’ tax systems are also abhorrent to businesses facing this prospect. The registration model is seen as a damper on the growth of e-business. This weakness from a business perspective is seen as a strength of the tax and transfer model.

6. The work of the Technology TAG on the modules or activities required to calculate and collect consumption tax led to them identifying a hybrid model with elements of the collection models being appropriately combined to result in a more practical collection model. The work to develop this hybrid would involve a further analysis of the technological alternatives for successfully implementing each of the six broad activities or modules identified.

Proposed future work

7. Members of the Technology TAG have had some discussions around where the TAG’s work should progress in the future. They believe that there are a number of factors which should underlie future work in this area:

   – There is little tax revenue at stake currently in end to end (B2C) online downloads.
Technology, as existing and commercially diffused today, does not provide robust jurisdictional identification or verification methods for such downloads. Promising technologies have been identified which are likely to be deployed in the medium term.

There is a need to keep working on these issues as a priority in order to assure a level playing field for all market participants in cross border transactions and the ability to collect revenue when such trade becomes more substantial.

The emphasis needs to be on identifying solutions that could be deployed for cost effective compliance. TAG participants cautioned strongly against solutions that are incapable of robust verification, that are overly burdensome in terms of cost or complexity or not supported by independent commercial rationales for the collection of information.

8. This background and participants experiences to date led to the TAG identifying the following areas as offering potential and warranting further examination:

- Examine viable short-term solutions which may not be ‘technological solutions’ as such (e.g. the use of a merchant’s internal databases).

- Further study of global IPv6 numbering including examination of the potential for geographic links to be inherent to IPv6 numbers.

- Complete a catalogue of third part tax services providers to document what is currently available and to provide this information to merchants.

- Need for further study of digital certificates and what models may make sense for use by tax authorities.

- Issues related to use and recognition of digital certificates in cross border situations; roles of government and private sector in providing CA and Registration services.

- More detailed review of the impact of wireless technologies and the impact of greater bandwidth availability.

- Ongoing monitoring to ensure that:
  - OECD directions correlate with changes in technology and commercial business models; and
  - new technologies that could be harnessed to help address the taxation challenges of electronic commerce is identified.
ANNEX III – SUMMARY RECOMMENDATIONS OF THE PROFESSIONAL DATA ASSESSMENT TECHNICAL ADVISORY GROUP

1. Set out below are the recommendations made by the PDA TAG. The FSM did not have sufficient time to consider these recommendations in any detail, but believes that they provide an excellent starting point for the next stage of the exercise. It also expects and encourages comments from both Government and private sector on the desirability and feasibility of the PDA TAG proposals.

Data access

2. There should be continued monitoring of remote access technologies by public sector and private sector auditors with a view to incorporating discussion of remote access into appropriate standards or training material.

3. In order to alleviate the concern that confidential data could be compromised, all relevant parties, including auditors and management, should be trained on best practices for e-commerce and web security, particularly regarding mechanisms to minimise the risks associated with accessing business data.

4. Businesses should be encouraged to use prudential systems for the management of encryption keys.

Internal control

5. In the context of Small and Medium sized Enterprises, tax administrations should work with software developers to encourage the incorporation of internal controls in their products for use in e-commerce trading.

6. Tax administrations should encourage the use of new assurance technologies such as time stamping on the grounds that its adoption can give greater assurance over the integrity of data when combined with other systems controls.

7. Tax administrations should also engage with software developers to encourage the adoption of time stamping technologies within their software design.

8. Tax administrations should encourage business to adopt strong authentication measures using technologies such as PKI.

Substantive tests

9. In clients with good internal controls, fiscal auditors should consider placing greater reliance on the system controls and the use of less intrusive tests.
10. In clients with weak internal controls, fiscal auditors should examine the use of computer assisted audit techniques where these will give reasonable audit assurance at a reduced compliance cost to the client.

Current auditing standards and guidelines

11. Tax administrations should continue to monitor new standards from standard setting bodies, best practices from the private sector and any emerging protocols.

12. Tax administrations should provide input, as appropriate, to standard setting bodies and other relevant parties.

Approach to audits and auditor training and development

13. Public Sector and Private Sector auditors working in the electronic environment of e-commerce must be provided with the requisite training in order to understand that environment, to employ the correct computer-assisted audit tools and techniques, including web-based technologies and, to conduct systems audits.

14. Public Sector and Private Sector auditors need to be trained in data assurance mechanisms and understand what assurances these mechanisms provide in an audit context and they must also know how to audit the relevant mechanisms.

15. Consideration should be given by the OECD to conducting a further survey at some future stage to assess the level of experience of auditors in the e-commerce environment.

Desirable data elements

16. The list of desirable data elements should be provided to the appropriate fora considering Consumption Tax issues at the OECD and elsewhere, as an aid in the furtherance of their work.

17. The list of elements should be issued by the OECD in the form of an information or best practice note.

18. The list of elements should be refined and incorporated into a de facto protocol such as XML or other protocols.

19. Tax administrations should approach software developers and standards bodies with a view to ensuring that the list of elements is considered in the development of appropriate systems and standards.